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SUBJECT: Serbia: DPM Djelic Outlines a European Economic Future

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Summary

¶1. (SBU) During a January 22 meeting with the Ambassador, Deputy Prime Minister Djelic (DS) outlined the government's vision of a European economic future for Serbia. Djelic focused on Serbia's preparations for EU negotiations and hopes to sign an SAA as soon as January 28. Djelic admitted that the energy agreement with Russia just approved by the government was politically driven. After the elections the Serbian government plans to move on a number of high profile privatizations that they hope will attract significant interest from Western firms. End Summary

Preparing for EU Candidate Status

¶2. (SBU) Djelic told the Ambassador in a January 22 meeting that the Serbian Government is working to complete by this summer a national plan for EU accession that will outline all of the steps required to bring the country into compliance with the EU's acquis communautaire. Djelic highlighted Serbia's readiness to sign an SAA as soon as possible, hopefully on January 28, in order to solidify Serbia's European path ahead of the second round of the presidential elections on February 3.

Energy Deal a Necessary Compromise

¶3. (SBU) Turning to the energy deal with Russia, Djelic confirmed that the government had approved earlier in that morning an energy framework agreement with Russia including sale of the state oil company NIS, operation of the natural gas storage facility at Banatski Dvor, and construction of a branch of the South Stream pipeline across Serbia. Djelic said that the deal was the price of being in a coalition government. He tried to minimize the significance of selling NIS without a tender by pointing to other untendered deals with Russia by Serbia's neighbors, including Greek purchases of military equipment, and Bulgaria's agreement on construction of a nuclear power plant.

¶4. (SBU) Djelic said that while he held his nose when he voted to support the framework agreement, there had been improvements in the document, and there were still many things to be negotiated with the Russians. He claimed that the agreement adopted by the government took out references to NIS's monopoly on production of refined products in Serbia, and included mention of EU environmental standards. The price paid for NIS was still the subject of negotiations along with other details and many of these would be sorted out later, once some of the political pressure of the

Presidential elections had passed.

Friday Signing in Moscow with Former Rival Candidate

15. (SBU) According to Djelic, the energy framework will be signed on Friday in Moscow with President Tadic and Prime Minister Kostunica present, but with Infrastructure Minister and third place presidential candidate Ilic signing the agreement. While Djelic did not offer a reason why Ilic, not the Energy Minister, would sign the agreement, he made clear that DS projections showed the second round of the Presidential elections could be decided by as little as 50,000 votes. The implication of Djelic's comments was that the photos of President Tadic alongside the PM and Ilic with Russian leaders on Friday would demonstrate support and unity among Tadic, Ilic and Kostunica.

Privatization Will Accelerate

16. (SBU) Looking beyond the presidential elections, Djelic said the government would accelerate the privatization of larger companies, including the airline JAT, tour bus operator Lasta, car manufacturer Zastava, trading conglomerate Genex, and bus manufacturer Ikarbus. Djelic hoped that all these companies would attract Western firms. In addition, the initial public offerings for several state firms would happen later this year with a tender for advisors to the government on this process coming soon. Djelic added that despite the energy deal with Russia on oil and gas, the government was seeking Western participation in energy and would now be targeting the electricity sector for partnerships with major European firms.

Comment

17. (SBU) Djelic was clear in his commitment to move Serbia toward the EU in the wake of a planned election win by President Tadic. His was not a false bravado -- it was clear that he believed Tadic

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would prevail in a tight contest. He was also frank in admitting that the Russian energy deal was politically motivated, pointing to the economic cost of a Tadic loss in the Presidential elections as the potential price of not agreeing to the deal. Djelic tried to downplay the damage of selling NIS without a tender, suggesting that the details are not yet final and so Serbia can still negotiate a better deal once the political pressure of the elections is over. On energy, the DS is acting tactically to shore up President Tadic's support, but Djelic is thinking strategically about the EU and international investment. End Comment.

MUNTER